

Hong Kong Pharmaceutical Holdings Limited

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香港藥業

Hong Kong Pharmaceutical Holdings Limited

香港藥業集團有限公司*

(Incorporated in Bermuda with limited liability)

MAJOR TRANSACTION & RESUMPTION OF TRADING

On 26 November 2003, the Company entered into the Agreement with the Purchaser in respect of the sale and purchase of the 34.43% of shareholding interest in Yangzhou Genetic at a cash consideration of RMB7 million. The terms of the Agreement including the Consideration were determined on an arm's length basis after negotiations between the Company and the Purchaser with reference to the unaudited net asset value of Yangzhou Genetic as at 30 September 2003, being approximately RMB20.1 million. The Disposal constitutes a major transaction of the Company under the Listing Rules and requires Shareholders' approval. The Disposal was approved by Tin Ming Management Limited, the controlling shareholder of the Company whose interest is no different from all other shareholders of the Company, therefore, no physical meeting will be held.

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03-12-2003

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A circular containing details of the Disposal will be despatched to the Shareholders as soon as practicable.

Trading in the shares of the Company has been suspended since 9:30 a.m. on 28 November 2003 pending for the release of this announcement and an application has been made to the Stock Exchange for the resumption of trading in the shares of the Company with effect from 9:30 a.m. on 3 December 2003.

On 26 November 2003, the Company entered into the Agreement with the Purchaser in respect of the sale and purchase of the 34.43% of shareholding interest in Yangzhou Genetic. The Directors wish to announce the details of the Disposal and the Agreement as follows:

THE AGREEMENT

Date: 26 November 2003

Parties:

- (i) The Vendor : the Company; and
- (ii) the Purchaser : Jiangsu Lianhuan Pharmaceutical Co., Ltd., a company incorporated in the PRC with limited liability and the shares of which are listed on the Shanghai Stock Exchange

The Purchaser and its largest shareholder 江蘇聯環藥業集團有限公司 Jiangsu Lianhuan Pharmaceutical (Group) Co., Ltd. are not connected persons of the Company (as defined in the Listing Rules) and the Purchaser is not a shareholder of Yangzhou Genetic and the Company prior to this transaction.

The Sale Interest : 34.43% of the shareholding interest in Yangzhou Genetic.

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Consideration:

The consideration in the amount of RMB7 million was arrived at after arm's length negotiation with reference to the unaudited net asset value of Yangzhou Genetic as at 30 September 2003, being approximately RMB20.1 million (including intangible asset value of approximately RMB5.2 million). The Consideration will be payable by the Purchaser in cash by 2 instalments:

1. on signing of the Agreement, the Purchaser shall deposit RMB2.1 million into the bank account of a notary public in the PRC appointed by both parties to be held in escrow until Completion whereupon such deposit will be released to the Company within 7 days; and
2. Within 7 days after Completion, the Purchaser shall deposit another sum of RMB4.9 million into the bank account designated by the Company.

Completion:

Completion will take place on the date on which approvals for the Agreement have been granted by the relevant authorities in the PRC, expected to be on or before 31 December 2003, or such other earlier or later date as both parties may agree.

The terms of the Agreement including the Consideration were determined on an arm's length basis after negotiations between the Company and the Purchaser. All Directors consider that the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

INFORMATION RELATING TO YANGZHOU GENETIC

Yangzhou Genetic is a limited liability company established in the PRC on 5 February 2001. It is principally engaged in the research and development of transgenic drugs and other biological products. The Company subscribe 34.43% shareholding interest in Yangzhou Genetic in April 2001. The remaining interest of Yangzhou Genetic are held by independent third parties

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not connected with the Company. It was a condition for the Company to invest in Yangzhou Genetic that the Company should have the controlling power in Yangzhou Genetic, as a result, one of its shareholders holding 16.39% interest (which is not a connected person of the Company and is an enterprise owned by the PRC Government) has delegated its voting rights in the board of directors of Yangzhou Genetic to the Company as stated in articles of association of Yangzhou Genetic, hence enabling the Company to have 4 out of the 7 representatives on Yangzhou Genetic's board of directors. Therefore, the Company can exercise control over the financial and operating policies of Yangzhou Genetic. Yangzhou Genetic is then classified as a subsidiary of the Company upon the Company finished capital injection to Yangzhou Genetic in April 2001. However, such authorization will terminate upon the Company cease to be a shareholder of Yangzhou Genetic. After the Disposal, the Company will not hold any interest in Yangzhou Genetic. The unaudited net asset value of Yangzhou Genetic as at 30 September 2002 and 30 September 2003 amounted to approximately RMB22.8 million and approximately RMB20.1 million respectively. Its audited net losses for the year ended 31 March 2002 was approximately RMB0.9 million, its unaudited net losses for the six months ended 30 September 2002 and for the year ended 31 March 2003 were approximately RMB1.9 million and approximately RMB3million respectively. Yangzhou Genetic did not record any turnover prior to the year ended 31 March 2003 owing to its nature of business is research and development of transgenic drugs and other biological products. However, its losses for the year ended 31 March 2002 and during the six months ended 30 September 2002 contributed only approximately 1.5% and approximately 2.66% respectively to the Group's consolidated net losses of approximately HK\$19.6 million and approximately HK\$23.2 million respectively. Therefore, Yangzhou Genetic is not a principal subsidiary of the Company and the Directors are of the view that the Disposal would not have any material impact on the principal activities of the Group.

REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

The Company is an investment holding company and its subsidiaries are principally engaged in the wholesale and retail of medicines and health

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products in PRC and Hong Kong, scientific research, manufacture and sale of biotechnological products in the PRC. As compare with the Group's retail business, the Directors are of the view that it will take a long time for the business of Yangzhou Genetic to generate profits and the Disposal helps the Group focus on its pharmaceutical distribution business in PRC and Hong Kong. The Company record a gain on the Disposal amounted to approximately RMB80,000. The net proceeds from the Disposal amounted to approximately RMB6.9 million will be used as general working capital of the Group.

The Disposal constitutes a major transaction of the Company under the Listing Rules as the Group suffered a negative tangible asset value as at 30 September 2002 and requires Shareholders' approval. Since no Shareholders are required to abstain from voting at the general meeting of the Shareholders to approve the Disposal, the Disposal was approved in writing by Tin Ming Management Limited, the controlling shareholder of the Company holding approximately 56.28% of the total issued share capital of the Company whose interest in this transaction is no different from all other shareholders of the Company. Hong Tau Investment Ltd. (a company held as to 51% by Mr. Sun Hiu Lu and Mr. Chu Kwan jointly, the chairman and director of the Company respectively) owns 100% interest in Tin Ming Management Limited. As a result, no physical meeting will be held. A circular containing details of the Disposal will be despatched to the Shareholders as soon as practicable.

The Directors are of the view that the Group has sufficient working capital for its ongoing operations despite the negative net tangible asset position as at 30 September 2002. The Disposal will not affect the Company in respect of the publication of its final results announcement for the year ended 31 March 2003 and therefore, did not contribute to the further delay in its results announcement, details of which are disclosed in another announcement of the Company dated 2 December 2003.

Trading in the shares of the Company has been suspended since 9:30 a.m. on 28 November 2003 pending for the release of this announcement and an application has been made to the Stock Exchange for the resumption of trading

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in the shares of the Company with effect from 9:30 a.m. on 3 December 2003. Trading in the shares of the Company was not suspended on 27 November 2003 as the Company have informed the Stock Exchange that the Disposal constitutes a discloseable transaction since the Company have wrongly used the net tangible asset value as at 31 March 2002 to determine the nature of this transaction (which in fact the negative net tangible asset as at 30 September 2002, being the latest published net tangible asset of the Group as at the date of this announcement, should be adopted).

All the financial information mentioned in this announcement are calculated according to the accounting principles generally accepted in Hong Kong.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Agreement”	means	the agreement for the sale and purchase of the Sale Interest
“Company”	means	Hong Kong Pharmaceutical Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange
“Completion”	means	completion of the sale and purchase of the Sale Interest in accordance with the terms and conditions of the Agreement
“Consideration”	means	the consideration payable by the Purchaser to the Company under the Agreement in the amount of RMB7 million
“Directors”	means	directors of the Company
“Disposal”	means	the disposal of Yangzhou Genetic by the Company under the Agreement
“Group”	means	the Company and its subsidiaries

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“Hong Kong”	means	the Hong Kong Special Administrative Region of the PRC
“HK\$”	means	Hong Kong dollars, the lawful currency of Hong Kong
“Listing Rules”	means	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	means	The People’s Republic of China
“Purchaser”	means	Jiangsu Lianhuan Pharmaceutical Co., Ltd., a company incorporated in the PRC with limited liability and the shares of which are listed on the Shanghai Stock Exchange
“Sale Interest”	means	34.43% of the shareholding interest in Yangzhou Genetic
“Shareholders”	means	the shareholders of the Company
“Stock Exchange”	means	The Stock Exchange of Hong Kong Limited
“Yangzhou Genetic”	means	Yangzhou Genetic Engineering Ltd, a company established in the PRC with limited liability
“RMB”	means	Renminbi, the lawful currency of the PRC

By Order of the Board of Directors
Hong Kong Pharmaceutical Holdings Limited
Huang Shuyun
Deputy Chairman and Managing Director

2 December 2003, Hong Kong

* *For identification purpose only*

Please also refer to the published version of this announcement in The Standard dated on 03-12-2003.

Hong Kong Pharmaceutical Holdings Limited
03-12-2003